An Empirical Analysis of the Valuation Methods of Unlisted Companies in Stock Exchanges

Dr. Ramzi DRISSI

Umm al Qura University, Saudi Arabia
https://doi.org/10.35609/gcbssproceeding.2022.2(34)

ABSTRACT

This paper investigates the method for evaluating unlisted companies in stock exchanges via the discounted cash flow (DCF) valuation method. This method seeks to determine the company's value by estimating the cash flows it will generate in the future and then discounting them at a discount rate matched to the flows' risk. Nowadays, this method is generally used because it is the only conceptually correct valuation method. The study was conducted on companies in the Spanish olive oil industry during the period 2005-2020. The results suggest two values for valuing private companies: static and dynamic value. Both values are calculated based on the sum of the updated cash value plus the remaining value. Static value provides only one value, while dynamic provides a range of values, resulting in a more accurate understanding of a company's value and a better understanding of the risks associated with that value. Therefore, the company is considered a generator of cash flows, and the value of the company is determined by calculating the present value of these flows using an appropriate discount rate. The results show that determining the discount rate is one of the most important tasks given risk and historical volatility. In practice, the minimum discount rate is usually set by the relevant parties.

Keywords: Cash Flow Discounted; Companies Unquoted; Valuation methods.